



An Audit of the Texas Higher Education Coordinating Board

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Glenn Hegar
Texas Comptroller of Public Accounts





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Executive Summary

Purpose and Scope

The objectives of the Texas Higher Education Coordinating Board (Board) audit were to determine whether:

- Contracts were procured according to applicable state laws and Comptroller requirements.
- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Capital and high-risk assets were properly recorded.
- Appropriate security over payments was implemented.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from March 1, 2017, through Feb. 28, 2018.

Background

The Texas Higher Education Coordinating Board is an agency of Texas government that oversees all public post-secondary education the in state. The Board determines which Texas public four-year universities are permitted to start or continue degree programs. The Board developed a new higher-education plan for the state, called "60x30TX." The plan's stated goal is that 60 percent of young adults in Texas will hold some type of postsecondary credential by 2030.

**Texas Higher Education
Coordinating Board website**


<http://www.thecb.state.tx.us/>

Audit Results

The Board generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with payroll, travel, grants, loans, refunds of revenue, contracts, system access or property records. However, the Board should consider making improvements to its purchase and internal control structure processes.

The auditors reissued one finding related to duplicate payments from the last audit conducted at the Board. Auditors originally issued this finding in August 2013. An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
Payroll Transactions	Did payroll transactions comply with the GAA, all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Travel Transactions	Did travel transactions comply with the GAA, all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Purchase/Procurement Transactions</u>	Did purchase transactions comply with the GAA, all pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> Insufficient contract terms/provisions  Duplicate payment 	Compliant, Findings Issued
Grant Transactions	Did grant payments comply with the GAA, state laws and regulations pertaining to grants, and other pertinent statutes?	No issues	Fully Compliant
Loans	Did loan payments comply with the GAA, state laws and regulations pertaining to loans, and other pertinent statutes?	No issues	Fully Compliant
Refund of Revenues	Did refund of revenue payments comply with the GAA, state laws and regulations pertaining to refund of revenues, and other pertinent statutes?	No issues	Fully Compliant
Contract Transactions	Did contracts and related payments comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Security	Did all system access over payments comply with all Comptroller security guidelines?	No issues	Fully Compliant



Repeat Finding



Area	Audit Question	Results	Rating
<u>Internal Control Structure</u>	Are duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	One employee with conflicting duties	Control Weakness Issues Exist
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting System?	No issues	Fully Compliant



Repeat Finding

Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- The Board must ensure that each contract includes a detailed budget and cost estimate specifying exactly what services are payable under the contract. The Board must require that all invoices submitted under a contract provide a cost breakout, allowing the Board to verify that all of the costs on the invoice are for services agreed to in the contract terms.
- The Board must strengthen its current procedures for identifying duplicate invoices to avoid making duplicate payments to a vendor. Additionally, the Board should ensure that its accounting staff reconciles invoices and payments to prevent duplicate payments.
- The Board must have or implement additional controls over expenditure processing that segregate each accounting task to the greatest extent possible.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample from a group of 20 employees and 91 payroll transactions totaling \$252,911.72 to ensure that the Board complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Additionally, a limited sample of 10 voluntary contribution transactions was audited with no exceptions identified. Audit tests revealed no exceptions for this group of transactions.

Travel Transactions

Auditors developed a representative sample of 15 travel transactions totaling \$2,670.12 to ensure the Board complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. An additional 33 travel documents totaling \$11,204.47 from a special report outside of the sample were tested. Audit tests revealed no exceptions for the travel documents in the special report.

Purchase/Procurement Transactions

Auditors developed a representative sample of 20 purchase/procurement transactions totaling \$2,129,639.55 to ensure that the Board complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed an insignificant instance of noncompliance, which was reported to the Board in a separate management report. Audit tests revealed the following exceptions in the purchase transactions.

Insufficient Contract Terms/Provisions

Auditors noted one contract and amendment, related to the implementation and expansion of the Texas Puente Program model and staff training, that did not include sufficient information to determine whether the payments were made correctly. The Request for Proposal (RFP), original contract and contract amendment do not clearly list the contract deliverables and budget information, so it is unclear what services should be performed.

The original contract did not include a list of the program participants. It provided funding for institutions currently implementing the program, and for new institutions interested in joining the program. Conversely, the amendment did include a list of the program participants, but it was not clear if these were current or new participants. Additionally, the amendment did not include language allowing new institutions to join the program.



The RFP required respondents to submit budgets at the start of the initiative, and a budget/cost estimate was prepared for the initial contract. According to the Board, it increased the amount in the amendment by 173% to expand the work and budget categories. However, the Board did not prepare a budget/cost estimate or detailed pricing sheet for the increased amount in the amendment.

The Board stated that the expansion of the budget was discussed verbally with the vendor and that any monies paid would be based on actual work completed and invoiced. The Board further explained that the expenses requested and paid after the execution of the amendment were allowable and not unusual for this kind of work. However, the invoice does not include sufficient information to match the contract terms and conditions. The invoice contains line items for operating expenses, insurance, office space and postal box rental that are not included in the original contract. Additional line items are not detailed or itemized as stated in the contract. Without a detailed cost breakdown in the contract, the Board cannot determine whether the charges listed on the invoice are accurate.

The *State of Texas Procurement Manual* effective at the time the contract was awarded required an estimated cost of the procurement to ensure successful procurement.

Recommendation/Requirement

The Board must ensure that each contract includes a detailed budget and cost estimate specifying exactly what services are payable under the contract. The Board must require that all invoices submitted under a contract provide a cost breakdown allowing the Board to verify that all of the costs on the invoice are for services agreed to in the contract terms.

Board Response

In September 2018, the Comptroller's audit team shared with the THECB staff their budget documentation concern. In November 2018, THECB staff drafted language to the agency's Procurement and Contract Management Handbook making budget documentation mandatory for all contracts, grants and amendments. THECB staff hosted three Contracting and Invoicing Training information sessions on Feb. 6, 12, and 19, 2019. At each training, THECB staff addressed the Comptroller's budget concern and introduced the new procedures moving forward. The implementation became official with the publishing of the THECB's Procurement and Contract Management Handbook in May 2019. The THECB will continuously review each set of contractual documentation for compliance.



Duplicate Payment

In a report generated outside the sample, auditors identified one duplicate payment processed by the Board during the audit period. The Board agreed that the transaction was a duplicate payment. The Board did not detect the duplicate payment because the vendor sent separate invoices on two different occasions.

The Board sought reimbursement from the vendor and received it in October 2018. In addition, the Board implemented a procedure to help identify duplicate invoices.

Recommendation/Requirement

The Board must strengthen its current procedures for identifying duplicate invoices to avoid making duplicate payments to vendors. Additionally, the Board should ensure that its accounting staff reconciles invoices and payments to prevent duplicate payments.

Board Response

Once the duplicate payment was identified, the vendor was notified immediately and a refund of the payment was received on Oct. 18, 2018. THECB has modified the procedures for querying the agency's duplicate invoice review report and has enhanced the review process to include dual reviews. In addition, THECB continues to monitor contract balances weekly for any overpayments which could also indicate possible duplicate payments.

Grant Transactions

Auditors developed a representative sample of 12 grant transactions totaling \$51,817,551.87 to ensure the Board complied with state laws and regulations pertaining to grants and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Loan Transactions

Auditors developed a representative sample of two loan transactions totaling \$5,280,146.07 to ensure the Board complied with state laws and regulations pertaining to loans. Audit tests revealed no exceptions for this group of transactions.

Refund of Revenue Transactions

Auditors developed a representative sample of 10 refund-of-revenue transactions totaling \$260,989.14 to ensure the Board complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.



Contract Transactions

Auditors developed a representative sample of 16 transactions from two contracts totaling \$135,209.52 to ensure that all phases of contract development, planning, solicitation, award, payments and monitoring complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Security

The audit included a security review to identify any of the Board's employees with security in the Uniform Statewide Accounting System (USAS) or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner. Audit tests revealed no security exceptions.

Internal Control Structure

The review of the Board's segregation of duties was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. The audit tests conducted revealed the following exception in user access.

Control Weakness Over Expenditure Processing

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the Board placed on its accounting staff's ability to process expenditures. Auditors reviewed the Board's security in USAS, Texas Identification Number System (TINS) and voucher signature cards that was in effect on July 30, 2018. Auditors did not review or test any internal or compensating controls that the Board may have relating to USAS, TINS security or internal transaction approvals.

The Board had one employee who could pick up warrants from the Comptroller's office and approve paper vouchers. The Board stated that its finance department has limited staffing and needs a few individuals who can perform the agency functions to ensure continuity of the business. The Board was provided with a schedule of this finding during fieldwork.

In September 2018, during the audit fieldwork, the Board sent a request to have the employee removed from the Agency Authorization for Warrant Pickup list.



Recommendation/Requirement

To reduce risks to state funds, agencies should have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process transactions without another person's involvement.

Board Response

THECB has a control environment that provides reasonable assurance of achievement of the agency's objectives. While one employee had the ability to approve expedited paper vouchers and pick up warrants, it is not the regular practice of THECB to process paper vouchers. This employee was removed from the warrant pickup list on Sept. 7, 2018. In addition to internal controls and segregation of duties, THECB also has system controls in place to prevent any one individual from entering and releasing (approving) vouchers in USAS. The Board of the THECB also commissions an external financial audit annually, which includes a review of internal controls.

Fixed Assets

The audit included a review of a limited number of fixed assets acquired by expenditures during the audit period to test for proper tracking in the Board's internal system. All assets tested were in their intended location, properly tagged and properly recorded in the State Property Accounting system.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
 - Uniform Statewide Accounting System (USAS),
 - Uniform Statewide Payroll/Personnel System (USPS),
 - Standardized Payroll/Personnel Report System (SPRS) or
 - Human Resource Information System (HRIS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

Audit Scope

Auditors reviewed a sample of the Texas Higher Education Coordinating Board (Board) payroll, travel, purchase, grant, loan, refund of revenue and contract transactions that processed through USAS and USPS from March 1, 2017, through Feb. 28, 2018, to determine compliance with applicable state laws.

The Board receives appendices with the full report, including a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

The audit provides a reasonable basis for the findings set forth in this report. The Board should implement the recommendations listed in the Detailed Findings of this report. It is the Board's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Board's documents comply in the future. The Board must ensure that the findings discussed in this report are resolved.



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit.

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

Anna Calzada, CTCD, Lead Auditor

Melissa Hernandez, CTCD, CTCM

Scott Coombes, CIA, CISA



Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none">• Lack of appropriate and sufficient evidentiary matter.• Restrictions on information provided to auditor.• Destruction of records.	Scope Limitation

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.